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SUSPENSE ____________ Date

Remarks

N/o attendance required

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Executive Secretary

9 Aug 85

Date

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THE WHITE HOUSE
WASHINGTON

August 8, 1985

NOTE FOR WILLIAM J. CASEY

FROM: ROGER B. PORTER RBP

The agenda and papers for the August 9 Meeting of the Economic Policy Council are attached.

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Footwear

THE WHITE HOUSE

WASHINGTON

August 8, 1985

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: ROGER B. PORTER RBP

SUBJECT: Agenda and Paper for the August 9 Meeting

The agenda and paper for the August 9 meeting of the Economic Policy Council are attached. The meeting is scheduled for 1:30 p.m. in the Cabinet Room.

The Council will consider the Section 201 nonrubber footwear petition. The attached memorandum briefly presents the background of the issue, the major policy objectives, and the three policy options developed by the Council.

Attachments

THE WHITE HOUSE

WASHINGTON

ECONOMIC POLICY COUNCIL

August 9, 1985

1:30 p.m.

Cabinet Room

AGENDA

1. Section 201 Nonrubber Footwear Petition

THE WHITE HOUSE

WASHINGTON

August 8, 1985

MEMORANDUM FOR THE PRESIDENT

FROM: THE ECONOMIC POLICY COUNCIL

SUBJECT: Section 201 Nonrubber Footwear Petition

Issue: Should you grant import relief to the U.S. footwear industry, and if so what type of relief should be granted?

Background

On July 1, 1985, the U.S. International Trade Commission (ITC) advised you that increased imports have substantially injured the U.S. nonrubber footwear industry, and recommended imposing a global import quota. The Trade Act of 1974 requires that you decide by August 30: (1) whether to grant import relief to the industry; and (2) if relief is granted, what form and level should be provided. The law requires you to determine whether relief would be in the national economic interest.

Production and employment in the U.S. footwear industry has declined relatively steadily over time. Production in the U.S. declined from a peak of 640 million pairs in 1968 to 300 million in 1984. Employment declined from a peak of 231,000 in 1967 to 121,000 in 1984. Although there are over 400 U.S. firms, roughly 20 firms account for about half of U.S. production.

Imports increased from 180 million pairs in 1968 to 730 million pairs in 1984. The ratio of the volume of imports to U.S. consumption rose during that period from 22 to 71 percent (and a 77 percent annual rate so far in 1985); the ratio of the value of imports to U.S. consumption rose from 10 to 55 percent. The value of imports is less than the volume because imports tend to be in lower-price markets. In terms of volume, the top three suppliers are Taiwan, South Korea, and Brazil. In terms of value, the top three suppliers are Taiwan, Brazil, and Italy. Imports have risen significantly because of lower labor costs abroad, the roughly comparable level of technology here and abroad, and the strength of the U.S. dollar.

Major Policy Objectives

The law requires you to consider certain criteria, which are broader than those considered by the ITC in determining injury. The most important economic criteria include:

1. Adjustment. Can import relief allow U.S. firms to adjust to greater international competitiveness after relief ends? Would relief encourage other countries to produce higher-price shoes, which would hurt efforts by U.S. producers to adjust? To what extent would U.S. footwear employment increase?

2. Domestic economic costs. To what extent would import relief impose costs on: (a) U.S. consumers, particularly low-income consumers, because shoe prices will rise; (b) other U.S. industries because foreign countries may demand compensation or retaliate; and (c) the U.S. economy because relief will reduce its efficiency by diverting resources from more productive uses?

3. International economic costs. To what extent would import relief hurt other countries, particularly Brazil, which depends significantly on shoe exports to service its external debts?

The Council found no economic justification for granting relief. However, you need to consider certain political criteria:

1. Legislation restricting imports. Would granting relief to footwear reduce the chances of protectionist legislation passing? Or would granting relief encourage other industries to press even harder for protection and weaken the Administration's ability to resist such pressures?

2. Section 201 legislation. What is the risk that rejecting the footwear Section 201 case will lead Congress to pass legislation reducing or eliminating presidential discretion in Section 201, and thus make it more likely that relief would be provided to industries filing cases?

3. Foreign policy. To what extent would import relief hurt U.S. relations with affected countries, particularly Brazil and E.C. members? To what extent would import relief encourage protectionism abroad and reduce support for a new trade round?

Policy Options

The Council has developed three basic options. The relief options differ primarily in form (quota or tariff), level of restriction, and whether restrictions apply only to imports above $2.50 or $4.00 customs value (roughly $10.00 or $16.00 retail).

Option 1: Provide no footwear import relief while utilizing Federal funds to help dislocated workers.

Announce the President is committed to the aggressive enforcement of the laws of the United States against unfair trade, including the self-initiation of Section 301 cases. Announce the specifics of the first Section 301 case.

This option envisions announcing a positive and comprehensive Administration trade policy statement in early September.

Advantages

- o Reinforces Administration policy of focusing on unfair trade practices. Granting relief to footwear may make it difficult to resist granting relief to other industries with high import penetration and broader support for protection.

- o Imposes no domestic economic costs.

- o Strengthens U.S. ability abroad to resist protectionism and encourage support for new trade round.

Option 2: Adopt the ITC recommendation, which would impose a global quota for 5 years on imports over $2.50 a pair.

Initially reduces import penetration to 61 percent, but future import share would be uncertain. Imposes total consumer costs of $1.7-2.9 billion over 5 years.

Advantages

- o Satisfies the industry and congressional advocates of protection because a quota provides more certainty than a tariff.

- o Demonstrates to Congressional critics the Administration's willingness to provide relief to industries injured by imports that use Section 201.

- o Reduces risk of Congress passing legislation restricting presidential discretion in Section 201 cases.

Option 3: Increase tariffs from an average of 9 percent to 30 percent initially and decline moderately over 5 years on imports over $4.00 a pair.

Initially reduces import penetration to 62 percent and ends at about 71 percent. Imposes total consumer costs of $1.7-1.8 billion over 5 years.

Advantages

- o Makes clearer than quotas the costs of import relief because effects of tariffs are more visible. This relief option would enable the U.S. Government to capture the economic rent from import restrictions.

- o Reduces costs on low-income consumers more than under Option 2 by excluding from relief imports below $4.00, instead of $2.50.

- o Helps the U.S. industry adjust since tariffs, unlike quotas, do not encourage other countries to move production into higher-price shoes.

Decision

Option 1 _____ Announce initiation of acceptable Section 301 actions against unfair trade practices while granting no import relief to footwear industry.

Supported by: Treasury, State, Transportation, OMB, CEA, NSC, OPD

CEA opposes initiating 301 actions.
State is noncommittal on Section 301.

Option 2 _____ Adopt ITC global quota remedy.

Option 3 _____ Increase tariffs initially to 30 percent.

Supported by: Agriculture, Commerce, Labor, USTR

James A. Baker III
Chairman Pro Tempore